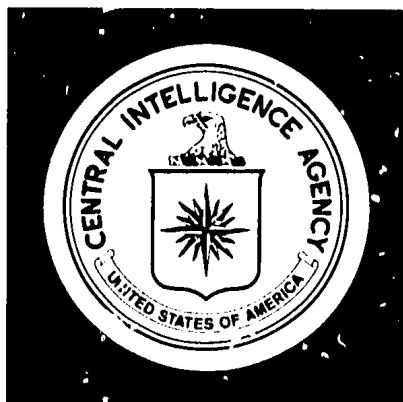


Declassified in Part - 5X1 1 of 1
051/75
Sanitized Copy Approved for
Release 2011/11/15 :
CIA-RDP86T00608R00030002

Declassified in Part -
Sanitized Copy Approved for
Release 2011/11/15 :
CIA-RDP86T00608R00030002

Secret

25X1



Weekly Summary

Secret

No. 0051/75

December 19, 1975

Copy **Nº 1399**

SECRET



CONTENTS (December 19, 1975)

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

MIDDLE EAST
AFRICA

- 1 Angola: On and On
- 4 Lebanon: Fighting Down
- 5 Spanish Sahara: Spaniards Departing

EUROPE

25X1

- 7 Italy: Political Maneuvering
- 8 Portugal: Military Role; Economy
- 10 Spain: The King's Men
- 12 France: New IRBM Silos
- 12 Iceland: The UN Approach
- 13 Law of the Sea: The 200-Mile Zone
- 14 Europe: Civil Aircraft Market
- 15 Yugoslavia-USSR: Minic Visit
- 16 USSR-Egypt: Relations Deteriorate
- 17 USSR: New Five-Year Plan
- 17 Poland: Hedging on the Economy

WESTERN
HEMISPHERE

- 19 Chile-Bolivia: Inching Forward
- 19 Peru: Purging the Left
- 19 Argentina: Impeachment Voted Down

EAST ASIA
PACIFIC

25X1

- 21 China: A Voice from the Left

25X6

25X1

SECRET

ANGOLA: ON AND ON

25X1

None of the contending parties in the civil war scored any major military gains during the past week, although the forces opposing the Soviet-backed Popular Movement for the Liberation of Angola made some progress in the west-central sector. Leaders of the two sides are intensifying their efforts to win political support among African states prior to the planned special summit meeting of the Organization of African Unity. The conference apparently will not convene before next month.

The Military Situation

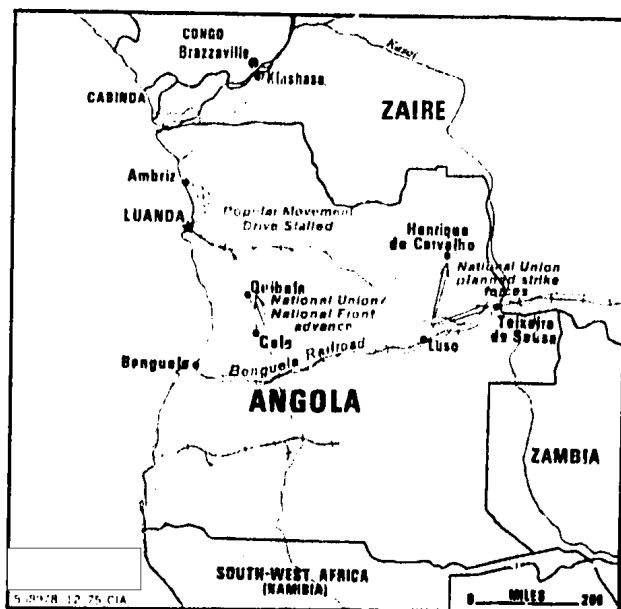
Late last week, a strike force including elements of the National Union for the Total Independence of Angola and the allied National Front for the Liberation of Angola pushed the Popular Movement out of the town of Cela. A National Union communique issued on December 15 had the force moving north toward Quibala, apparently along one of the main routes leading from the south to Luanda, seat of the Popular Movement's government. The muscle of this and other combined National Union - National Front task groups is provided by unknown numbers of South African soldiers, white mercenaries, and black Angolans who fought for the Portuguese against the Popular Movement during the insurgency.

In the east, the National Union consolidated its hold on Luso, recaptured last week. Union leaders and their advisers plan to send one of their combined strike groups against Teixeira de Sousa, which like Luso has changed hands twice in the past month, and another toward Henrique de Carvalho, the Movement's main operational base in eastern Angola.

North of Luanda, the military situation has remained essentially static since Popular Movement forces, backed by Cuban-manned artillery, advanced two weeks ago to within about 50 miles of Ambriz, the headquarters of the Zairian-supported National Front. Destruction of bridges over several rivers and the start of the rainy season have checked the Movement's drive, at least temporarily.

African Split Widens

African foreign ministers will not meet in Addis Ababa this weekend, as had been announced



25X1

SECRET

SECRET



by OAU officials to set a date and agenda for a later OAU summit. Governments supporting the Popular Movement's Agostinho Neto insisted the two meetings be held back-to-back, but OAU members have not yet agreed on timing. The Popular Movement's friends are eager for an early summit, believing that, under present circumstances, they can exploit the meeting to the Movement's advantage. At present the diplomatic trend in Africa continues to run in favor of the Movement; with Sudan's formal recognition of Neto's regime this week, the score among African states now is 14 for the Luanda government to none for the nominal joint regime proclaimed by his rivals last month.

Countries that want to keep the OAU officially neutral in the Angolan conflict, on the other hand, are trying to buy time. These countries and the National Union's Savimbi apparently hope to counter the political damage to the Movement's Angolan adversaries from the highly publicized aid they are getting from South Africa by developing a backlash against Soviet and Cuban assistance to Neto. Support will be sought for a blanket condemnation of all outside involvement in Angola and for a cease-fire and government of national unity there.

With the OAU meetings in abeyance, Savimbi flew to Uganda this week for talks with OAU chairman Idi Amin. The National Union leader is due in Dakar on December 19 to confer with conservative Senegalese President Senghor and reportedly intends on the same trip to visit Cameroon and Ivory Coast. In his talks with the West African leaders, all of whom oppose the Popular Movement's drive for OAU recognition as the sole legitimate Angolan nationalist group, Savimbi presumably will be focusing on concerting tactics for building African support against the Soviets and Cubans. His principal African backers—President Mobutu of Zaire and President Kaunda of Zambia—are actually working toward the same goal.

Savimbi and his allies face an uphill struggle in their effort to neutralize the highly emotional South African issue, which mainly motivated Nigeria's and Tanzania's recognition of the Neto regime and is clearly causing other African governments to waver in their adherence to neutrality. The Popular Movement, of course, will continue to exploit the issue for all it is worth. This week the Movement stoked the fire by exhibiting, at a press conference in Luanda, four South African soldiers captured in the recent fighting at Cela. Neto's lieutenant then took the four with him on a visit to Nigeria that began in Lagos on December 16; they are certain to attract wide publicity there and wherever else he may visit.

Savimbi, while in Kampala, made an attempt to disown Pretoria's assistance by claiming that

SECRET

any South African forces in Angola are there on their own and by calling on African states to help drive them out. His argument is not likely to be persuasive in many African capitals.

Soviet Press Admits Support

The Soviet central press has, for the first time, indirectly admitted that both Moscow and Havana are providing military support to the Popular Movement in Angola.

Earlier this month *Pravda*, in reporting on a press conference held by President Nyerere in Brussels, cited the Tanzanian President's statement that he was "certain" the USSR was providing the MPLA with the "necessary arms" for its struggle against the "interventionists" from South Africa. In an accompanying commentary, *Pravda* stated inter alia that the Soviet Union, which stands "among the loyal friends" of the Angolan people and was one of the first to welcome the birth of an independent regime, "is providing help and support to Angola during these difficult days."

Last weekend, moreover, the Soviet news agency Tass took the unusual step of publicizing MPLA leader Neto's expression of gratitude for Moscow's "all-round help" to the Angolan people. At the same time, *Pravda* provided the first hint seen thus far in the Soviet press that Cuba is furnishing substantial assistance to the MPLA. The Communist Party daily said that Cuba "always supported all national liberation movements in Africa, including the MPLA—the sole legitimate representative of the Angolan people."

Moscow's decision to make public, even in an unofficial way, its role in Angola coincides with recent MPLA gains in the military and diplomatic arena and suggests that the Soviets may want to get their fair share of the credit for these successes. The decision also dovetails with recent revelations in the US press of allegedly substantial US support for the MPLA's rivals; hence, the Soviets may now feel less compelled to mask the dimensions of their own involvement.

Sino-Soviet Rivalry

Peking is still making an effort to capitalize on Moscow's heavy-handed support for the Popular Movement. Publicly, the Chinese are maintaining a position of strict neutrality, and there is no evidence that any significant new amounts of Chinese military assistance are reaching the National Front or National Union.

As long as other countries maintain their current levels of assistance to the National Front and the National Union, China can be expected to maintain a low profile with its former clients, endorse the Organization of African Unity's call for neutrality toward Angola, and score propaganda points at Moscow's expense. Peking is clearly concerned, however, that it may not be able to sustain this approach.

Any significant reduction in support for the National Front and National Union by other countries, for example, would present the Chinese with difficult decisions. Mobutu would almost certainly want to divert to Angola large amounts of the Chinese assistance to his country to make up for the loss of other sources, and such increased Chinese involvement would soon become public knowledge.

The prospect of a reversal of the Organization of African Unity's position on Angola or an agreement among its members to go their separate ways on the recognition issue would be equally unsettling to the Chinese. This would almost certainly lead to much wider African and Third World recognition for the Popular Movement and leave Peking on the wrong side of the fence.

25X1

25X1

SECRET

SECRET

Phalangists take aim at snipers during recent fighting in downtown Beirut

LEBANON: FIGHTING DOWN

The fighting in Beirut between Christians and their Muslim and leftist foes abated somewhat during the week following the proclamation last Sunday of yet another cease-fire. The new truce was negotiated by Prime Minister Karami and Palestinian leader Yasir Arafat, with the Syrians playing a key role in smoothing the way. Damascus has also made a new mediatory move aimed at getting Lebanon's political leaders talking again.

Arafat apparently was instrumental in gaining acceptance of the truce from Ibrahim Qulaylat, the leader of radical leftist forces that spearheaded the recent battle with Christian Phalangist militiamen for domination of the city's international hotel district. The latest peace arrangements provided for security forces to replace the army in the embattled district. This was a concession to the leftists who had gained control over much of the area and had refused to relinquish their vantage points to the army units

that were sent in last week.

Lebanese politicians—Christian, Muslim, and leftist—have over the past two weeks traveled to Damascus for consultations, and Syrian Foreign Minister Khaddam may soon come to Beirut to continue the Asad regime's efforts to mediate a political settlement. At present, the Syrians are focusing on helping Prime Minister Karami to form a more representative government.

Expansion of the present narrowly-based cabinet to include members of all principal political groups is one of the few remaining options that might help bring about a basic political settlement. A broadened government would strengthen the Muslim Prime Minister's hand in controlling the terms and pace of a reform program, thus reassuring moderate Muslim groups. At the same time, it would give Christians a better chance to prevent or at least delay serious erosion of their dominant position. Such a balancing of interests would not satisfy Lebanon's leftist

SECRET

SECRET

groups, however; they oppose the country's present system of power-sharing among religious groups.

Until recently, Kamal Jumblatt—the principal spokesman for the leftists—had refused to be represented in a government that included the Phalanges Party and had insisted that his own reform program be accepted before the formation of any new government.

25X1

25X1

[redacted] a general lack of confidence that the current cease-fire, still not fully implemented, will hold long enough to permit meaningful political progress. As of December 18, scattered fighting was continuing in Beirut, in villages southeast of the capital, and in the Tripoli-Zagharta area of northern Lebanon. In this uncertain atmosphere elements from any quarter could again upset the truce. [redacted]

25X1

SPANISH SAHARA: SPANIARDS DEPARTING

Morocco's King Hassan is continuing to send Moroccan security forces into northern Spanish Sahara to fill the void left by Madrid's withdrawal from the territory well ahead of the late February deadline set in the agreement it signed with Rabat and Nouakchott last month. Algeria, frustrated by the failure of its efforts to obtain a clear-cut disavowal of the tripartite agreement by the UN General Assembly last week, is strengthening its general military posture and increasing aid to Polisario Front guerrillas fighting for the independence of the territory.

Madrid appears to have virtually completed its evacuation of Spanish forces and civilians. Spanish press reports indicate the few remaining troops will leave in early January; a small diplomatic mission will be maintained in El Aaiun, the territorial capital. The new Spanish regime is anxious to avoid any involvement in hostilities between Morocco and the Polisario Front or its sponsor, Algeria.

Moroccan army units recently arrived in El Aaiun to take up security functions. As many as 4,000 to 5,000 Moroccan troops reportedly are in the capital and a similar number in Semara. Some 600 Moroccan police are also stationed in El Aaiun and a few outlying towns.

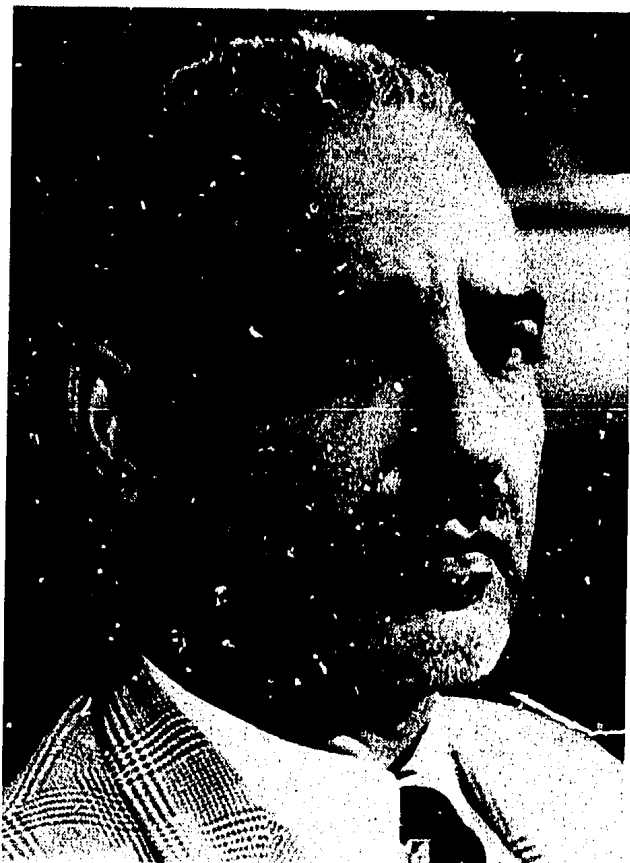
Despite the influx of Moroccan forces and their aggressive pursuit of the guerrillas, Polisario

**SECRET**

SECRET

resistance has spread. Several terrorist incidents occurred in El Aaiun last week. Polisario forces reportedly have considerable support among the local population in the territory, with many younger Saharans leaving the towns to join up with the Front.

Last week also brought the first reports of fighting between Mauritanian and Polisario forces, with incidents occurring at several widely separated points along the long border between Mauritania and the Saharan territory. Nouakchott has mobilized its 1,500-man army and is inducting new recruits. President Ould Daddah's government is especially concerned about protecting a vital rail line that runs parallel to the territory's



President Ould Daddah

southern border. In an effort to secure the rail head, Mauritanian troops, aided by a Moroccan unit that arrived by air last week, are trying to wrest control of a nearby town on the Saharan side that was occupied by Polisario forces last month.

In their engagements with the Moroccans and Mauritians, the Polisario guerrillas are now using mortars, machine guns, and grenade launchers. Each side has alleged the other is committing atrocities and both are almost certainly guilty.

25X1

So long as they have Algerian backing, the guerrillas can keep up terrorist and sabotage attacks. The automated belt conveyor system that moves phosphate ore some 60 miles from Bu Craa to El Aaiun is especially vulnerable to guerrilla operations.

Algeria, for its part, has increased its troop strength and added to its supply depots at Bechar and Tindouf, although the actual extent of the buildup is unknown. The Algerians have also ordered tents, medicine, and surgical equipment from French firms.

Algeria's efforts are probably intended, for now at least, to exert psychological pressure on Morocco and to strengthen Algerian defenses along the border. Moreover, some of this activity is probably in direct support of the Polisario front. The Algerians are providing arms, training, and possibly some volunteers to the Front in the hope that the Moroccans will be bogged down fighting a long and costly insurgency. Algiers is undoubtedly concerned over how Rabat will react to this support and wants to be ready for any contingency.

25X1

SECRET

SECRET**ITALY: POLITICAL MANEUVERING**

Italy's Christian Democratic and Socialist parties are both troubled by serious internal divisions as they prepare for congresses early next year. Debate will revolve around the central issue of how best to compete with the Communists in local elections this spring and in the next parliamentary race.

In the six months since the Communists nearly outpolled the long-dominant Christian Democrats in nationwide local elections, the latter have done little to improve their prospects. The question of how to deal with the Communists has deeply divided the Christian Democrats, with the result that they were able to agree on little more than a date for the party congress at their last strategy session.

The congress will open on March 4, a date acceptable to both the Christian Democratic left—led by interim party chief Zaccagnini and Prime Minister Moro—and the opposing center-right group that is seeking to gain control of the party. The latter group, which includes a majority of the party, wanted the congress held as soon as possible, since Zaccagnini is scheduled to step down at the meeting. The center-right maintains that Zaccagnini's support for an open "dialogue" with the Communist opposition threatens to edge the Christian Democrats toward broader collaboration with them. Zaccagnini was in favor of delaying the congress until spring or later in order to consolidate the influence the party left has been gaining since he took over in July.

Fearing a split that could cripple the party in the next campaign, some Christian Democrats have begun to work to bridge the gap between these two groups. Foreign Minister Rumor and Treasury Minister Colombo, for example, are part of an emerging centrist faction that is trying to put together a broadly based majority that includes all but the extreme left and extreme right in the party.

The Christian Democrats' lack of progress so far, however, has helped convince the Church to take a more active role in domestic politics than it



Zaccagnini

has since the 1950s. Alarmed in particular by the possibility of the Communists' winning the municipal elections in Rome this spring, the Church hierarchy—including the Pope—is taking a harder line on the Communists. The strongest statement came this week, when the Council of Italian Bishops declared that it is impossible to be Marxist and Christian at the same time.

For their part, the Socialists have been preoccupied by an internal quarrel over whether to continue their crucial parliamentary support for the Moro government. Socialist leader De Martino has been under strong pressure from members of his party who believe that continued support for the government will hurt the Socialists in the next election.

Last week, De Martino—while sharpening his criticism of the government—convinced the Socialist directorate to postpone until the party congress in February any decision on whether to end support for Moro. De Martino maintained that causing a government crisis now would play into the hands of Christian Democrats and Social Democrats who are opposing the trend in their parties toward an accommodation with the

SECRET

SECRET

Socialists. He also agreed that a crisis in present circumstances could precipitate early parliamentary elections, which most political leaders oppose and for which the Socialists would be blamed.

De Martino probably also wants to avoid bad publicity prior to or during his visit to the US in January. In addition, divisions among Socialists over what course to follow if Moro falls could destroy the veneer of unity that De Martino hopes to maintain through the party congress.

The Communists are also urging the governing parties to avoid actions that could lead to the collapse of Moro's government. Communist leaders fear that dissolution of the government now would lead to early parliamentary elections in which the central issue would be the question of Communist participation in the government. The Communists want to avoid a premature confrontation and prefer to devote their time to consolidating the gains they scored at the local level in June.

25X1

PORTUGAL

MILITARY ROLE DIMINISHED

Portuguese military leaders are proceeding with a plan to reduce the armed forces' role in politics. On December 12 the Revolutionary Council announced a constitutional law forbidding military participation in partisan political activities. Recognizing the changing political situation, the law describes the armed forces as the "guarantor" of democracy and socialism rather than as the "driving force of the revolution," the phrase often heard under former prime minister Vasco Goncalves. It also lays the groundwork for ending months of military domination of the government by relegating the armed forces to a less grandiose role.

The constitutional law foreshadows changes in the agreement reached between the military and the political parties last spring, in which the

civilians agreed that the armed forces would retain their dominant role for the next three to five years. Since the pro-Communist regime headed by General Goncalves was overthrown in September, the political parties have demanded revisions in the pact, claiming that it no longer accurately represents political realities. Talks began this week between the parties and a five-man commission from the Revolutionary Council for the purpose of making such revisions.

This new attitude of the military reflects the views of a group of "professional" soldiers—some of whom are members of the Revolutionary Council—which seeks to return political power exclusively to civilians and to let the Portuguese people decide whether they want a socialist society.

The strength of the "professional" officers' group is not known with certainty, but its influence is believed to be growing. It already appears to have played a major role not only in putting down last month's leftist rebellion, but also in bringing about a marked change in the political direction of the country. An early test of the group's strength will be the extent to which the new pact between the civilian political parties and the military reflects the "professionals' call for the military to turn power over to the civilians and return to the barracks.

ECONOMIC PROBLEMS

The purge of leftists following the insurrection on November 25 improves prospects for the emergency economic program outlined last month but by no means assures its implementation. Within a week of the uprising, the government was able to shift attention to economic affairs long enough to approve a series of minor measures. Lisbon still faces fundamental economic difficulties and has a limited political capability to deal with them.

The emergency economic program is a working document intended to be the basis for discussion and development of specific measures. It calls for a number of unpopular actions, notably a 10 percent cut in consumption to reduce imports

SECRET

SECRET

and free capacity for production of export and investment goods. Consumption would be curbed by increased taxes, wage controls, higher prices, and perhaps rationing.

The balance-of-payments deficit would be cut by higher tariffs, export subsidies, and other measures. Employment and output would be raised by boosting public sector investment and encouraging private investors. Civil construction and export industries would be the priority areas for investment.

To carry out this program, government officials of varying political stripe must agree on a detailed series of laws and regulations. Even under the best of circumstances, the government is not likely to succeed in reassuring investors because of its commitment to worker control over private enterprise.

Lisbon now estimates real gross national product will decline 10 to 15 percent this year. Output fell sharply with the nationalizations and worker seizures that followed the abortive coup in March. Agricultural production has held up, but large-scale nationalization and seizure of land, which began in September, will depress next year's farm output.

The government already controls 60 to 75 percent of the modern economy, but has not yet begun to operate it in a coordinated manner or to invest heavily in it. Many of the remaining private businesses are on the brink of ruin, their chance of survival sapped by forced wage increases, price controls, a ban on dismissals, confused and inconsistent regulations, and denial of credit by leftist-dominated committees in the nationalized banks. Economic activity has been interrupted by frequent political meetings and hampered by worker insubordination.

Most prerevolutionary managers and owners have been forced from their positions, leaving a shortage of critical talents. Many have fled to Brazil, while others have been jailed on charges of "economic sabotage." Remaining private

businessmen and farm proprietors have been subjected to constant harassment. Legal measures to impose worker control in enterprises still in private hands are pending.

Unemployment is believed to be approaching 400,000 persons, or 13 percent of the labor force. The total has been swelled in recent months by the influx of Angolan refugees, the discharge of military personnel, a drop in the number of Portuguese finding jobs in France, and the deterioration of the economy. Only about 20,000 people seem to be receiving unemployment benefits.

Consumer prices, which rose about 25 percent in the 12 months prior to the April 1974 coup, rose at a 20-percent annual rate in the succeeding 16 months, according to official figures. All wage negotiations have been suspended for the remainder of the year, pending enactment of an incomes policy.

The serious drain of foreign exchange reserves continues, although this year's current account deficit could be less than the \$800 million of 1974. Reserves dropped \$400 million in the first eight months of 1975, following a nearly \$500-million decline in 1974.

Despite expected government borrowing from the IMF and private banks, Lisbon will have to initiate sizable gold sales by the second quarter of 1976. Foreign aid will neither stop the decline of reserves in the near term nor correct the problems underlying the payments imbalance.

So far, the EC has offered more than any other donor—\$175 million in concessionary loans to finance specific development projects, refugee assistance consisting of \$2.5 million in surplus powdered milk and butter oil, and a credit for medicines. Disbursement of the loans cannot begin for several months, as Lisbon has not come up with plans for projects in accord with EC requirements. The US and individual West European countries also have offered assistance, but little aid has been forthcoming from Communist countries.

25X1

SECRET

SECRET

SPAIN: THE KING'S MEN

Most of the key political portfolios in the new Spanish cabinet are held by men who have publicly supported gradual liberalization of Spain's political system, closer ties with Europe, and continued friendly relations with the US. They are joined by a team of bright technical experts who now hold all of the important economic portfolios. The orientation of the cabinet has thus shifted away from the authoritarian right, and the few rightists remaining may find it difficult to stand in the way of gradual change toward a more democratic society. The cabinet was sworn in on December 12^{25X1}

The King's hand is evident in a number of the appointments

25X1

Prime Minister Carlos Arias appears to be left with only one personal follower, the hold-over minister of public works, Valdes Gonzalez.

Fraga, until recently Spain's ambassador to London, has achieved the strongest position within the cabinet. Strong-willed and outspoken, Fraga has an eye on the prime minister's job. He heads a powerful ministry—charged mainly with internal security—and is one of three deputy

prime ministers. A brother-in-law and three close colleagues occupy the ministries of education and science, information and tourism, commerce, and industry, giving Fraga important levers in five major areas.

The cabinet is generally considered one of transition. If Fraga succeeds in making his mark, he may well take over from Arias. Fraga has publicly favored legalization of political parties, excluding the Communists, and free parliamentary elections.

The second major personality in the cabinet is the new foreign minister, Jose Maria de Areilza, the Count of Motrico, a former ambassador to Washington and Paris and long-time monarchist. In 1964, Areilza gave up his post in Paris in order to distance himself from the Franco regime, and in recent years he has been outspoken in opposing the repressive policies of the government. He has many contacts among the democratic left. Widely considered an opportunist, he is politically ambitious and, like Fraga, has hopes of becoming prime minister.

In all, five of the new ministers are former ambassadors who served in countries vital to Spain's foreign relations—the US, the UK, France, Morocco, and the Vatican—pointing perhaps to a determination to improve relations abroad.

The National Movement, still Spain's only legal political party, has only three representatives in the new cabinet, and two of them are young supporters of orderly change. Jose Solis Ruiz—moved from the ministry of the Movement to that of labor—is the only staunch conservative, but he is also considered an opportunist and is not expected to oppose modest political evolution.

Regime Christian Democrats have two representatives in the government, including Alfonso Osorio, who is well-liked by the King and

New Spanish Cabinet

Prime Minister	Carlos Arias Navarro ^a C
Dept. Prime Minister for Defense Affairs,	
Minister without Portfolio	LtGen. Santiago Diaz de Mendivil
Dept. Prime Minister for the Interior,	
Minister of the Interior	Manuel Fraga Iribarne ^c
Dept. Prime Minister for Economic Affairs,	
Minister of Finance	Juan Miguel Villar Mir ^d
Agriculture	Virgilio Onate Gil ^c
Air Force	LtGen. Carlos Franco Iribarnegaray
Army	LtGen. Felix Alvarez Arenas
Commerce	Leopoldo Calvo Sotelo ^c
Education and Science	Carlos Robles Piquer ^c
Foreign Affairs	Jose Maria de Areilza ^c
Housing	Francisco Lozano Vicente ^d
Industry	Carlos Perez del Brio ^d
Information and Tourism	Adolfo Martin Garmez ^c
Justice	Antonio Garrigues y Diaz-Canabate ^c
Labor	Jose Solis Ruiz ^a m
National Movement	Adolfo Suarez Gonzalez ^m
Navy	Adm. Gabriel Pita de Veiga ^c
Office of the Prime Minister	Alfonso Osorio Garcia ^c
Public Works	Antonio Valdes Gonzalez ^d
Syndicate Organization	Rodolfo Martin Villa ^m
(The Economic Development and Planning Ministry was abolished.)	
^a Retained from last cabinet. ^c Favor gradual change. ^m National Movement.	
^d Economic technical experts	

SECRET



King Juan Carlos presents his new cabinet

replaces Arias' right-hand man, Carro Martinez, as minister of the prime minister's office. Although regime Christian Democrats are the most conservative of the various Christian Democratic factions in Spain, they favor evolutionary change and could provide a bridge to other Christian Democrats in the illegal democratic opposition.

Prior to the announcement of the cabinet, there was much speculation that Arias would set up a defense ministry to coordinate the three military services.

The King and Arias apparently decided to compromise and appointed Lieutenant General Santiago y Diaz de Mendivil, one of the less conservative members of the armed forces hierarchy, deputy prime minister for

defense and minister without portfolio. Santiago will apparently be responsible for defense coordination, but it is unclear how much authority he will have over the three service ministries.

Following the first meeting of the new cabinet last weekend, the government issued a forward-looking statement of principles emphasizing economic and social welfare and orderly political reforms. Its broad generalities and lack of a timetable have disappointed the left, which will continue to try to organize strikes and protest demonstrations to bring pressure on the government. Nevertheless, some leaders of the democratic opposition have voiced approval of the sweeping cabinet changes. While emphasizing that the changes do not go far enough, they have admitted that the new government is a positive step given the present situation in Spain.

25X1

SECRET

SECRET

25X1

25X1

ICELAND: THE UN APPROACH

Iceland last week requested an urgent meeting of the UN Security Council following an incident on December 11 in which an Icelandic patrol boat was rammed by a British support ship inside Iceland's 12-mile limit. The British ship apparently was seeking shelter from a storm when the incident occurred. Iceland called the incident a "flagrant violation of Iceland's sovereignty, endangering peace and security."

Reykjavik first instructed its UN delegation to propose a resolution condemning the ramming incident as a violation of Icelandic sovereignty, but later agreed to a more subdued approach. The UK engaged in some quiet diplomacy and successfully persuaded most of the Security Council members, as well as the Nordic countries, to urge Iceland to limit the Security Council session to a presentation of views.

Iceland has for several weeks been considering an approach to the UN as part of an effort to gain worldwide sympathy and support. Reykjavik deferred an approach to the UN General Assembly on a resolution that would have branded the UK an aggressor, but reserved the right to act if other initiatives failed. The ramming incident provoked the request for an emergency meeting of the Security Council.

This is the first time in the long history of its fishing dispute with the UK that Iceland has appealed to the UN. In the 1972-73 cod war, Reykjavik considered raising the issue at the UN, but never followed through. Iceland probably felt it could make a better case out of the current dispute because of British violation of Iceland's 12-mile limit, which the UK recognizes.

25X1

SECRET

SECRET

Iceland's desire not to antagonize the US probably influenced the decision to tone down its approach to the UN. [redacted]

25X6

[redacted] the Icelandic coalition could not go away empty-handed and face the almost certain barrage of criticism by the opposition parties at home.

The timing of the ramming incident—it occurred during a meeting of NATO foreign ministers in Brussels on December 11-12—may have killed any hopes that Iceland will accept Britain's latest offer on the size of the annual fishing catch. In an effort to get the stalled negotiations going again, British Foreign Secretary Callaghan told Icelandic Foreign Minister Agustsson during bilateral talk in Brussels that the UK was prepared to recognize that fish stocks were dangerously depleted and were vital to Iceland. On the tough issues, London would reduce its annual catch to a figure somewhere between the 110,000 tons the British have demanded until now and the 65,000 tons that Iceland wants. He repeated that Britain would withdraw its warships from Icelandic waters if Iceland would stop harassing British trawlers.

So far, there has been no response from Reykjavik. Iceland has consistently maintained that its position on the size of the British catch is non-negotiable and has rejected London's conditions for removing its frigates. [redacted]

25X1

LAW OF THE SEA: THE 200-MILE ZONE

Moves in recent months by Mexico and Iceland to establish 200-mile zones of control off their coasts have raised fears that other nations will take similar actions. If many more countries do so, efforts to reach an international consensus at the Law of the Sea Conference may be undermined.

During the session of the conference in [redacted]

Geneva last April and May, most nations agreed in principle that coastal states should have exclusive control over petroleum and other seabed mineral resources, as well as the right to manage coastal fisheries, out to 200 miles. Several major issues remain to be resolved, however, before an international agreement can be reached:

- The legal status of the economic zones, and residual rights of states that have heretofore operated in the zones to freedom of navigation, marine scientific research, and control over marine pollution within the economic zone.
- The right of landlocked states to fish in the economic zones of neighboring coastal states.
- The harvesting of coastal fish not taken by the zonal state.
- The management and conservation of highly migratory species of fish.

Uncertainty as to whether the Law of the Sea Conference could resolve these issues was probably a major factor in the recent declarations by Mexico and Iceland of 200-mile zones. Other nations may follow suit, and many will, unless substantial progress is made in the next session of the conference, scheduled for March in New York.

Unilateral declarations are most likely from countries that desire to conserve offshore fishing resources. Even Japan, which has long voiced opposition to unilateral declarations, is under intense domestic pressure to extend its territorial waters to 12 miles to curb Soviet fishing activity.

Nations such as Canada, whose waters are heavily fished by foreign fleets, can be expected to claim the right to manage all living and mineral resources out to 200 miles. Additional Latin American countries, concerned about fishing resources and offshore minerals, may take similar unilateral actions. Major fishing nations, especially the USSR, will seek bilateral agreements to protect their access to their usual fishing grounds. [redacted]

25X1

SECRET

SECRET**EUROPE: CIVIL AIRCRAFT MARKET**

Over the next decade, West European civil airlines will need to replace about 850 short-haul aircraft, worth about \$20 billion in 1975 dollars.

For the past two decades, Western Europe's civil aircraft manufacturers have been unable to compete with US manufacturers in the West European market. The Europeans have acquired advanced US technology, however, and now have the potential to produce a new cost-effective short-haul aircraft.

Within the next year, the European manufacturers will have engine and airframe technology comparable to that of US manufacturers and can therefore meet the performance requirements established for the new short-haul aircraft. They also have the necessary production capacity to build most of the 850 aircraft that are needed.

They will have to marshal their resources and cooperate to the fullest, however, if they are to get their short-haul aircraft off the ground ahead of their US competitors, who last year exported \$2.7 billion worth of civil transport aircraft.

The Soviet aircraft industry is expected to be no more than an onlooker. The Soviets have neither a current production model nor plans for a new model that would come close to the requirements established by the West Europeans.

Aircraft Requirements

About a year ago, at the urging of their governments, a group of West European aircraft manufacturers and national airline companies examined requirements for the 1980 to 2000 period.

They decided they would need two sizes of replacement aircraft:

- A smaller aircraft with 90 to 120 seats and a range of up to 1,000 miles. Such a plane is expected to evolve from modifications in US and West European aircraft now under production.
- A larger short-haul aircraft with 170 to 200 seats and a range of about 2,500 miles.

The leading contenders in this class are Airbus Industrie A300 B10, US Boeing 7X7, and US Douglas DCX200.

The US-designed aircraft differ from the Airbus principally in minimum take-off distance—7,000 to 9,000 feet versus 5,000 feet. This performance characteristic alone would give the Europeans an advantage over their US competition because many European airfields have runways of only 5,000 to 6,000 feet.

The scheduled B10 variant of the A300 may have the best combination of performance and economic features for the future West European market. This family of aircraft has the size and design flexibility, coupled with advanced technology—new wing aerodynamics and new structural materials, including composites—to meet performance and economic requirements.

Since some of the research and development expenses have already been absorbed and since the A300 B10 variant could be ready perhaps as early as 1979—one to two years earlier than any all-new design—the B10 is currently the strongest European candidate. The B10 variant could be powered initially by current engines and later by advanced high-performance engines.

High-Performance Engine

The early availability of an advanced high-performance engine is important to West European manufacturers. If they were to wait for the development in Western Europe of such an engine or for US manufacturers to develop the engine for US airlines, the US would be able to keep its market advantage. Thus, the development of such an engine and the advanced airframe technology will be important in the selection of a replacement aircraft.

Fortunately for the West Europeans, a new engine, the CFM 56 high-bypass engine with a nominal 20,000-pound thrust—the so-called 10-ton engine—should be available in early 1979. It is being jointly developed by General Electric and French-government-owned Snecma.

SECRET

SECRET

This engine meets the requirements of low fuel consumption, as well as lower noise and emissions; it is expected to be ready for series production in 1979. A new, competitive US engine, the JT10D, will probably not be ready for series production until at least 1980. Whatever the West European decision, France almost certainly will insist that the aircraft ultimately selected be powered by the 10-ton engine.

Market Factors

Manufacturers wishing to compete for the West European replacement contracts will have to commit themselves to a new aircraft program now or in the very near future. Several models of aircraft in existing fleets have been out of production for as long as a decade and have reached retirement age. About half the current West European short-haul fleet—assuming a 16-year aircraft life—will be out of service by mid-1983.

European replacement needs, in fact, are some two to three years ahead of the needs of US airlines. The availability of a quiet, economical engine with a 10-ton thrust provides West Europeans with an opportunity to supply Western Europe's needs for short-haul aircraft.

The European manufacturers need this market to maintain employment and to keep production lines going. They are suffering from the failure of some past civil aircraft programs and from US success in winning the competition for replacement fighter aircraft with the F-16.

A meeting in the near future of the EC Council is expected to address European civil aviation plans and policies. The results of this meeting will affect Western Europe's ability to capture a major portion of its own market and to remain competitive in the international arena.

25X1

YUGOSLAVIA-USSR: MINIC VISIT

Yugoslav Foreign Minister Minic's early December visit to Moscow produced several bland statements that suggest a deliberate attempt to play down the failure to resolve basic Soviet-Yugoslav differences.

Before the trip, considerable Western press attention had focused on Belgrade's disagreements with the Soviets over the proposed European Communist Conference and on Yugoslav suspicions that Moscow is behind pro-Soviet subversive activity in Yugoslavia. Neither side, however, has wanted a serious deterioration in relations, and the Minic mission provided a useful opportunity to quiet speculation about an impending break.

The communique on the visit said the talks occurred in an atmosphere of "friendliness, mutual understanding and frankness." There were no direct references to differences, but neither were there any hints that the Yugoslavs accept Soviet denials of involvement with Stalinist subversives in Yugoslavia.

The communique evidently was drafted after considerable wrangling, and Yugoslav observers are privately discounting its significance. Instead, they are stressing Minic's toast to Gromyko which, they say, amounted to a lecture on the principles of non-interference in Yugoslav internal affairs.

Given the contentious political substance of the talks, economic relations emerged center stage in media coverage. A new five-year trade plan calling for \$14 billion in two-way trade was signed by the foreign trade ministers at the outset of Minic's trip. The growth in bilateral trade will thus continue through 1980, but at a somewhat slower rate.

By September of this year, the USSR had supplanted West Germany as Yugoslavia's leading trading partner, and bilateral trade in 1975 will probably reach nearly \$2 billion. Two years ago, trade amounted to only \$815 million, but higher prices for Soviet oil and raw materials have since then rapidly inflated the dollar value of bilateral trade.

25X1

SECRET

SECRET

USSP-EGYPT: RELATIONS DETERIORATE

The recent impasse in Soviet-Egyptian debt negotiations is a further indication of the deterioration in their relationship. Egypt's financial options have increased as a result of generous Arab aid, which has reduced the effectiveness of Moscow's withholding of arms deliveries and its hard line on debt rescheduling.

Debt talks reached a stalemate over Cairo's refusal to accept Soviet conditions for rescheduling Egypt's \$2- to 4-billion aid debt. Moscow refused Sadat's demand for a ten-year moratorium on all payments and for spreading repayments over a 30- 40-year period. Despite the failure to reschedule the debt, a 1976 trade protocol signed at the recent meeting allows Egypt to export roughly \$140 million more than it receives. Presumably, some of the excess could be used for debt repayments.

Until recently Moscow had deferred most of Egypt's military repayments, although service on economic debt was maintained. The latter has been paid as scheduled over 5-12 years at 2.5 to 3.0 percent interest. Payments have amounted to \$60 million to \$85 million a year since completion

of the Aswan Dam in 1970, about equal to annual aid receipts from the USSR. In 1975, Egypt paid back more than it received in new aid.

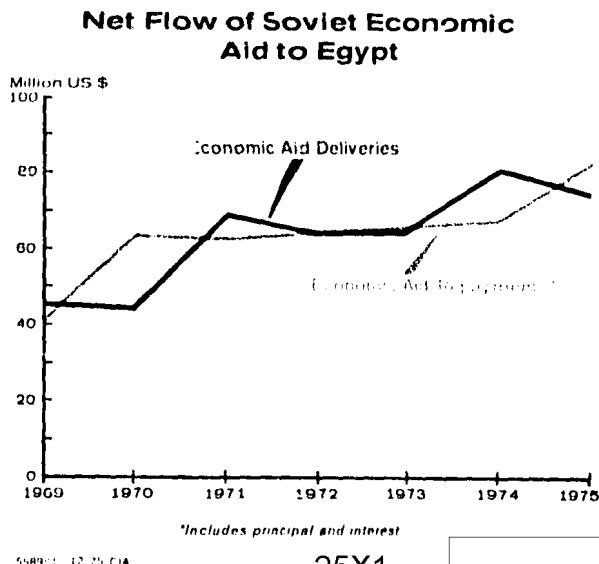
Moscow's quick replacement of most of Cairo's military equipment losses in the 1967 and 1973 wars underlined the extent of the Soviet commitment to the Middle East. Since the 1973 Arab-Israeli conflict, however, no new Soviet-Egyptian military agreements have been signed. Deliveries under old accords continued, but even these have been reduced to a trickle since early summer. Deliveries totaled \$80 million in 1974. Three squadrons of fighters, including 26 MIG-23s, and other equipment worth about \$155 million were delivered in the first half of 1975, bringing total Soviet arms shipments to Egypt in the last two decades to at least \$3.5 billion.

Recent Arab financing has decreased Egypt's dependence on the USSR and allowed it to contract with the UK and France for jet fighters, helicopters, and air-to-air missiles.

Egypt also is seeking Arab and Western financing to expand its military aircraft industry. Nevertheless, the Soviet arms embargo has had a serious impact on Egyptian military readiness, and substantial amounts of Western arms are a long way off.

Strains in Soviet-Egyptian political and military relations have not directly affected ongoing Soviet development assistance to Egypt. During 1975, more than 1,500 Soviet economic technicians were in Egypt, many working on the expansion of its only integrated steel mill and on a Soviet-built aluminum plant. They also were employed on ship repair work and shipbuilding at the Alexandria shipyard, and in providing assistance to Egypt's fishing industry and large-scale irrigation and rural electrification programs. Here too, however, Arab financing has reduced the relative importance of Soviet aid.

Although no new Soviet development aid has been extended since 1971, some \$400 million of



25X1

SECRET

SECRET

credits remain to be drawn on old agreements that total \$1.4 billion. Moscow has been cautious in undertaking new assistance, however. A \$20-million grant for clearing mines from the Gulf of Suez was the only emergency-related assistance provided in the aftermath of the October 1973 war.

Moscow, still anxious to maintain a role in Egypt, has recently been seeking to revitalize its economic aid program. It agreed earlier this year to go ahead with a cement plant at Asyut and to increase the capacity of the aluminum plant, both to be financed under existing credits. The USSR has also offered to underwrite the development of the Abu Tartur phosphate deposits and related facilities, for which at least \$600 million of new Soviet credits would be required. Egypt is apparently shopping elsewhere for funding the Abu Tartur, however. [redacted]

25X1

USSR: NEW FIVE-YEAR PLAN

On December 13, the Soviets outlined a five-year plan for 1976-80 that apparently commits the country to lower, more realistic goals than did the previous five-year plan. The highest targets are in the agricultural sector; investment there is to be further increased and the annual grain harvest is set close to the record level.

Thrift, efficiency, and quality production are stressed, and there is little encouragement for the consumer to expect anything more than a gradual increase in the standard of living. This was foreshadowed in the 1976 plan announced earlier this month.

The new plan calls for the following increases over the five-year period:

- Agriculture: 14-17 percent versus 37-40 percent originally planned for 1971-75. The goal for grain is set at between 215 and 220 million metric tons a year; only once has the harvest been higher than 215 million

tons. The already heavy investment program in agriculture will be further emphasized, rising from 131 billion rubles in 1971-75 to 172 billion rubles in 1976-80

- Industry: 35-39 percent versus 47 percent originally planned for 1971-75; heavy industry is to grow by 38-42 percent and light industry by 30-32 percent. The 1976-80 plan thus continues the midterm reversal of the current plan, which at first promised to accelerate the production of consumer goods faster than that of producer goods.

- National income (roughly comparable to the Western concept of gross national product): 24-28 percent, compared with 39 percent originally set for 1971-75.

- Wages: 16-18 percent for salaried workers and 24-27 percent for collective farmers. The difference is in line with the current policy of reducing the disparity between the two groups.

- Foreign trade: 30-35 percent in volume, roughly comparable to the increase planned for 1971-75.

The outline of the new five-year plan, while acknowledging the negative impact on the economy, caused by weather-connected harvest failures, criticizes production shortfalls and other shortcomings in the non-agricultural sectors as well. [redacted]

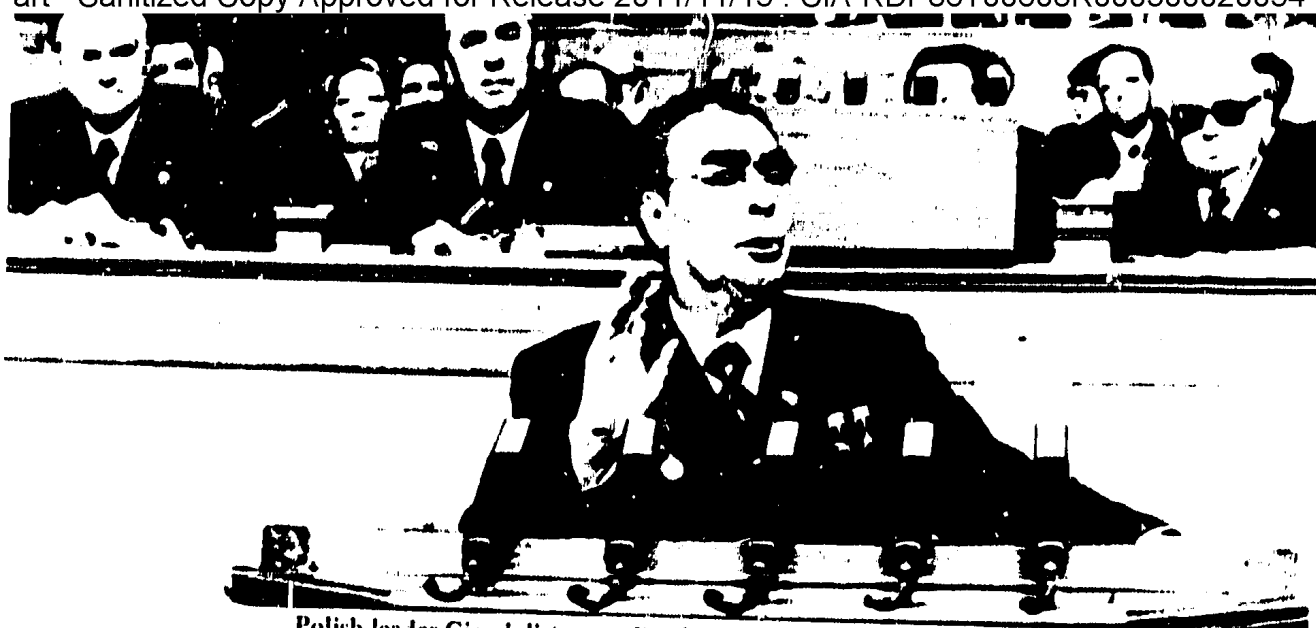
25X1

POLAND: HEDGING ON THE ECONOMY

With a cautious eye on the volatile working class, the Polish party congress ended last Friday with promises of further economic progress.

Both party leader Gierek and Prime Minister Jaroszewicz acknowledged that serious economic problems beset the country—including in-

SECRET



Polish leader Gierk listens to Brezhnev's speech at the party congress

flationary pressures, consumer goods shortages, and mushrooming repayments on a soaring hard currency debt. Instead of shifting growth priorities to alleviate these problems, however, the leadership outlined a program that would continue the current economic momentum. Thus, investment, consumption, and production targets for 1976-80 are the same as those set for the last five-year period. Gierk and Jaroszewicz claimed repeatedly that the projected goals can be achieved through better management and worker performance and through increased productivity based on imported Western machinery and equipment.

Both leaders hedged on the sensitive issue of price increases for basic foodstuffs. Gierk, for example, justified the need for removing the price freeze, but added quickly that a final decision will be made only "after further study and consultations with the people." Every Pole knows that this means the price of food will go up, but the bureaucratic maneuvering could last until after Easter. The leadership most certainly recognizes that any sudden large price increases could lead to violent worker reaction as they did in 1970.

The few changes in the top leadership announced at the congress were obviously designed to strengthen Gierk's control. His pre-congress team was re-elected virtually *in toto*.

Two newcomers were elected candidate members of the Politburo. Jerzy Lukaszewicz, party secretary for press and propaganda matters,

is regarded by many Poles as a comer. Tadeusz Wrzaszczyk, who was appointed head of the planning commission and a deputy premier earlier this fall, is a strong supporter of Gierk's efforts to use Western credits and technology to modernize the economy.

The party secretariat and the central committee were enlarged, but the changes will not affect power relations at the top.

More than 70 foreign delegations attended the congress. Soviet party leader Brezhnev's speech was short on substance, but—as is his wont in recent months—bearish on relations with the West. CSCE was clearly on his mind. He demanded that no one aspect of the Helsinki agreements be emphasized over another, and he criticized the West for its failure to disseminate the text sufficiently. In addition, he repeated his earlier references to "ideological penetration." The unexceptional speeches of the other East European party leaders were generally refrains of Brezhnev's themes.

Now that the congress has promised a continued rise in the standard of living, and with special supplies of food available for Christmas, tensions in Poland will remain low for the next few weeks. Warsaw cannot continue its special supply efforts indefinitely, however, and signs of discontent will soon resurface as Poles go back to their normal business of rumor-mongering in anticipation of price increases and renewed food shortages.

25X1

SECRET

SECRET**PERU: PURGING THE LEFT**

25X1

During Army Day speeches on December 9, both the President and Prime Minister Vargas warned "counterrevolutionaries" against attempting to "destabilize" the government. Morales Bermudez went on to declare that, if necessary, force would be used to protect the military-led revolution.

The government is in fact facing serious economic problems, and balance-of-payments difficulties may be more troublesome than it had anticipated. The problems have been compounded by labor strife, which continues despite government efforts to respond to worker grievances.

A crackdown against leftists would give rise to charges that the President has sold out to the right wing and reneged on earlier promises of more open political debate. Morales Bermudez' support within the military, however, almost certainly will not suffer and may even be enhanced by such a move.

25X1

CHILE-BOLIVIA: INCHING FORWARD

The Chilean government is apparently still not agreed on just how far to go toward satisfying Bolivia's aspiration for a sovereign outlet to the sea.

25X1

A Foreign Ministry spokesman in Santiago meanwhile has issued a formal opinion that early resolution of the problem is unlikely, a move calculated to lower the heat that Banzer has applied to the issue. Pinochet nevertheless recognizes that pressures are building on Banzer for some sign of progress in the talks before February—the first anniversary of the decision to resume diplomatic relations and begin bilateral discussions on the century-old problem.

Lima would have serious reservations about any agreement involving the erstwhile Peruvian provinces won by Chile in the War of the Pacific (1879-1883). A 1929 protocol requires Peruvian consent to any alteration of boundaries. For the time being, the Peruvians are willing to let Chile and Bolivia grapple with the issue by themselves, but the Morales Bermudez government will insist on a voice in the settlement if it affects areas subject to irredentist claims.

25X1

ARGENTINA: IMPEACHMENT VOTED DOWN

The Argentine congress has not yet been able to translate its grave objections to President Peron's administration into concrete action.

This week a congressional committee finally rejected an impeachment motion offered well

SECRET

SECRET



President Peron

over a month ago by a group of opposition deputies. The motion, which charged poor presidential performance on a variety of fronts, was defeated on grounds that it contained no concrete charges, only political criticism.

The committee's action is not surprising. In the first place, the strongest support for impeachment has come from a handful of congressmen representing a tiny splinter party. Thus far the larger opposition groups have not followed through on their threats to push for impeachment. Moreover, members of the governing coalition have the largest representation on the chamber's impeachment committee.

Although spared the immediate threat of impeachment, the government lost ground in the chamber as a whole, when, for the first time, it ceased to command an absolute majority. The setback came last week when 27 members of the coalition officially left it. The 27 then formed their

own group, joining other congressmen trying to fend off administration efforts to hinder congress' investigation of high-level corruption.

The split merely formalized the steady erosion of the President's authority. She is the titular head of the Peronist party, which forms the core of the coalition. The attack on her leadership began many months ago and is highlighted by the passage of a succession law she strongly opposed and by the ouster of a close associate from the presidency of the chamber of deputies.

The President's loss of authority does not, however, mean a corresponding increase in the power of the forces ranged against her. Indeed, the latter seem more and more disorganized despite the generally agreed need to "do something." Thus, congressional action on the impeachment and investigation questions faces protracted wrangling and may not produce concrete results.

25X1

SECRET

SECRET**CHINA: A VOICE FROM THE LEFT**

Party leftists have been remarkably silent all year as many of their pet policies, adopted during the Cultural Revolution, have been overturned by a moderate coalition headed by vice premier Teng Hsiao-ping. Early this month, however, they launched a propaganda counterattack in their last remaining area of influence—education—and have attempted to expand this into a general defense of the Cultural Revolution and the policies of that period.

Chairman Mao has reportedly endorsed several changes in educational policy that would raise the level of academic training in China's universities. These changes were elaborated on in a speech made by the minister of education this fall. On December 4, however, the day the education minister returned from a trip abroad, the party newspaper carried an article on the front page that attacked each of the educational changes point by point.

The leftist outcry over education has probably thrown enough of a scare into educators to prevent them from making any changes in educational policy. Attempts to expand this attack into a defense of the Cultural Revolution in order to regain some lost ground are likely to meet with less success.

Several articles lauding the Cultural Revolution appeared recently, calling for a defense of the "new things," policies that emerged from the Cultural Revolution. This broader attack is a response not only to the changes in Cultural Revolution policies—and to Mao's apparent abandonment of the left—but also undoubtedly to the growing power and prestige of the rehabilitated Teng Hsiao-ping. Teng is a particular irritant to the party's left wing because, as one of the most prominent victims of the Cultural Revolution, he personifies all of the evils that the leftists wanted to eradicate during that period. One article, in fact, specifically warns officials who were purged during the Cultural Revolution but have now been reinstated to mind their p's and q's.



Teng Hsiao-ping

Teng's power, greater now than before the Cultural Revolution, is likely to confine leftists' attacks to propaganda broadsides while limiting their actual influence over policy. Nevertheless, these recent articles demonstrate that leftists retain access to the media and are capable of stirring up propaganda debates despite a steady decline in their political influence. In the past year, the left has not been able to mount a sustained attack on current policies. If kept up over time, such leftist activity could force the hard-nosed Teng to take firm action against his antagonists or, in the tradition of Premier Chou En-lai, to tread more cautiously in overturning the policies of the Cultural Revolution.

25X1

SECRET

Page Denied

Next 2 Page(s) In Document Denied